

**KENOWA HILLS
PUBLIC SCHOOLS**
Kent and Ottawa Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2005

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents

For the year ended June 30, 2005

Financial Section

<i>Independent Auditor's Report</i>	<i>1</i>
<i>Management's Discussion and Analysis</i>	<i>3</i>
<i>Basic Financial Statements</i>	<i>13</i>
District-wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	20
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Basic Financial Statements	23

Supplemental Information

Combining and Individual Fund Statements and Schedules:

General Fund	39
Comparative Balance Sheet	40
Comparative Schedule of Revenues	41
Comparative Schedule of Expenditures	42

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents

For the year ended June 30, 2005

Nonmajor Governmental Funds	55
Combining Balance Sheet.....	56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	57
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund.....	58
Athletics Special Revenue Fund.....	59
Special Revenue Funds.....	60
Food Service Special Revenue Fund:	
Comparative Balance Sheet.....	61
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	62
Athletics Special Revenue Fund:	
Comparative Balance Sheet.....	63
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	64
Agency Fund.....	65
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities	66
Other Information:	
Summary of 2004 Taxes Levied and Collected.....	68

Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 2, 2005

The Board of Education
Kenowa Hills Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of Kenowa Hills Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kenowa Hills Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Kenton, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of the Kenowa Hills Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	2005	2004
Assets		
Current assets	\$ 7,091,583	\$ 6,433,243
Capital assets, net book value	30,705,361	31,826,977
Total Assets	37,796,944	38,260,220
Liabilities		
Current liabilities	5,493,165	5,139,382
Long-term liabilities	35,251,092	37,970,374
Total Liabilities	40,744,257	43,109,756
Net Assets		
Invested in capital assets, net of related debt	(5,468,283)	(7,242,440)
Restricted	100,874	224,226
Unrestricted	2,420,096	1,764,261
Total Net Assets	\$ (2,947,313)	\$ (4,849,536)

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

Management's Discussion and Analysis
June 30, 2005

The Statement of Activities presents changes in net assets from operating results:

	2005	2004
Program Revenues		
Charges for services	\$ 1,125,837	\$ 1,145,186
Operating grants	4,428,323	2,740,883
General Revenues		
Property taxes	13,387,866	13,162,327
State school aid, unrestricted	15,859,861	16,319,954
Interest earnings	98,534	68,442
Gain on sale of capital assets	4,347	12,677
Other	337,022	201,034
Total Revenues	35,241,790	33,650,503
Expenses		
Instruction	18,414,148	18,883,072
Supporting services	11,772,737	11,375,618
Community services	306,614	370,045
Food service	1,247,295	1,248,899
Athletics	425,676	408,416
Other	13,952	—
Interest expense	1,159,145	2,286,761
Total Expenses	33,339,567	34,572,811
Increase (Decrease) in net assets	1,902,223	(922,308)
Net Assets - Beginning of Year	(4,849,536)	(3,927,228)
Net Assets - End of Year	\$ (2,947,313)	\$ (4,849,536)

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Growth during the year in taxes and operating grants were the largest contributors to revenue increases. Expenditures declined due mainly to budget reductions instituted by the school board and a decline in the amount of interest expense on long term debt.

The Districts's total revenues increased 4.7 percent to \$35.24 million. Property taxes and unrestricted state aid accounted for most of the District's revenue, contributing 83 cents of every dollar raised. Another 12.6 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings and miscellaneous sources.

The total cost of all programs and services decreased 3.6 percent to \$33.3 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (61 percent). The District's administrative and business activities accounted for 8 percent of total costs. Operation and maintenance expenses accounted for \$2.9 million or nine percent, which included higher natural gas costs for heating school facilities during this past winter.



Total revenues surpassed expenses, increasing net assets by \$1,902,223 from last year.

The improved status of the District's finances this past year can be attributed to planning and implementing strategies aimed at reducing annual operating costs. Cost reduction strategies were broadly applied in the school district's largest fund, the General Fund and the Debt Service Fund. Attributes of the District's current financial picture are as follows:

- Rising real estate values led to a 1.7 percent increase in property tax revenues, despite the fact that tax rates remained unchanged from the previous year. The District has not raised tax rates since 1996.
- The cost of all governmental activities this year was \$33.3 million.
- Some of the cost was financed by the users of the District's programs (\$1.1 million).
- The federal and state governments subsidized certain programs with grants and contributions (\$4.4 million) an increase of \$1.7 million over the previous year.
- Most of the District's costs (\$29.7 million), however, were financed by District and State taxpayers.
- The \$34.6 million of governmental activities was financed with \$13.3 million in property taxes, \$15.9 million of unrestricted state aid based on the statewide education aid formula, investment earnings, and other local sources.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kenowa Hills Public School's funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$30,408,763, total expenditures of \$29,363,694, and total other financing uses of \$312,461. It ended the fiscal year with a fund balance of \$3,017,882, an increase of \$732,518 from the fund balance of \$2,285,364 at June 30, 2004. The increase in fund balance was due almost entirely to the implementation of expenditure or budget reductions totaling more \$1.3 million in the 2004-05 fiscal year.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues were \$1,374,179 and other financing sources were \$298,509, with total expenditures of \$1,649,086. The ending fund balance of \$80,045 was attributable to the Food Service Fund.

Debt Service Funds

The District maintains one Debt Service Fund. Total revenues were \$3,541,624, total expenditures were \$2,950,864, and net financing uses were \$755,561 to advance refund bonds payable. The ending fund balance in the Debt Service Fund was \$344,321.

Fiduciary Funds

The District has Scholarship Funds and a Student Activities Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2005 totaled \$116,073.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. These budget revisions included three important changes:

- Changes made to account for the final student enrollment that determines how much foundation grant per pupil or State school aid will be received during the fiscal year.
- Changes made in June following the resolution of contract negotiations with unionized employee groups.
- Final changes made in June for increases in various appropriations to prevent budget overruns.

Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$340,424, the ending result was an excess of revenues of \$732,518.

- Actual revenues were \$152,942 lower than expected, due largely to State school aid changes during the year.

Management's Discussion and Analysis
June 30, 2005

- Actual expenditures were \$1,240,682 below budget, due primarily to unspent grant monies that will be carried over to the 2005-06 school year and underexpended budgets in operations and maintenance.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004-05, the District had invested \$44.7 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. This amount represents a net decrease of less than one percent from last year. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.19 million while building improvements and additions to equipment and furniture amounted to almost \$64,000.

The District's fiscal year 2005-06 capital budget calls for spending on capital projects in the following areas:

- \$14,000 for parking lot repairs and restriping at various school buildings.
- \$8,000 for retrofitting gym lighting for energy conservation purposes.
- \$4,000 for replacing an underground roof drain line at Fairview Elementary.
- Replacing two old buses in the school bus fleet with two new buses at a total cost of approximately \$127,400.
- \$6,000 for window replacement at various locations throughout the school district.
- \$21,000 to upgrade instructional hardware (primarily computers) and remove from service computers that are 7 to 9 years old.
- \$5,000 to replace data projectors.
- \$3,600 to replace voicemail at Zinser Elementary.

At June 30, 2005, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$30.7 million. This represents a decrease of approximately \$1.1 million from the previous year-end.

Land	\$ 1,108,000
Land improvements	658,767
Buildings and additions	27,586,299
Furniture and equipment	418,409
Vehicles	933,886
	<hr/>
Net Capital Assets	<u>\$ 30,705,361</u>



Long-Term Debt

At year end, the District had \$36.9 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$2.7 million from last year. The District continued to pay down its debt, retiring \$1.4 million of outstanding bonds and \$417,000 of employee retirement payments. The District also advance refunded its 1996 bond issue for a net present value savings in future interest costs of \$4,244,629.

The District's bond rating (Standard & Poors) for General Obligation, Unlimited Tax debt remains "AAA". This rating is a carryover of the State of Michigan's bond rating since the general obligation bonds issued by the school district were qualified by the State at the time of issuance.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district's boundaries. The District's other long term obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Negotiated contract settlements were reached with teacher and support staff unions representing 350 employees during the 2004-05 school year. The agreement with the teacher's union includes a salary provision which will impact the 2008-09 and 2009-10 fiscal years. That provision will require that teacher salary steps increase by 1.5 times rather than the traditional 1.0 rate of increase in 2008-09 and 2009-10. The estimated cost of the additional salary step increase for the two years is \$400,000. Those agreements will expire at the end of the 2005-06 school year.
- The District transferred responsibility for its special education itinerant staff special education services to the Kent ISD beginning with the 2004-05 school year. Since that time the district has been awaiting the outcome of legislative action to see if it will realize any annual savings from the transfer. If favorable legislative action occurs, it is anticipated that the district will see savings of more than \$300,000 per year starting in the 2005-06 fiscal year.
- Rapidly increasing costs for natural gas, diesel fuel and gasoline, health care and pension contribution obligations are anticipated again in fiscal 2005-06. These costs represent a significant portion of the District's budget and their rate of increase continues to be a concern to management.
- The State of Michigan continues to be in an economic slump that has been underway for the past four years. State school aid funding and tax collections that help to subsidize the State school aid fund for K-12 schools are sensitive to the economic growth rate in Michigan. Weak economic performance in Michigan has contributed to no real growth in the State foundation grant (State school aid) to K-12 schools for the past three fiscal years. The State foundation grant is expected to increase by \$175 per student in 2005-06. While this increase is good news compared to recent years, it is uncertain if further annual increases will be forthcoming after 2005-06 given the State's economic situation.



- The District's fund balance in its primary operating fund, the General Fund, increased by \$732,518 during the 2004-05 fiscal year to \$3,017,882. This increase breaks a 2 year trend of declines in the fund balance of the General Fund. The increase in fund balance is viewed as a positive financial development and should help to improve the stability of school programming during the 2005-06 school year.
- Budget reductions totaling more than \$1.6 million have been put in place for the start of the 2005-06 fiscal year to maintain or improve the financial position of the General Fund. This is the second straight year the school district has made large reductions in the annual school budget. Reductions last year (2004-05) totaled more than \$1.3 million. Both management and the board of education are committed to the goals of maintaining the financial stability of the school district and to maintaining core instructional programming for all students.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Zeitter, Assistant Superintendent, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544. Contact by e-mail: rzeitter@khps.org.

BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,050
Cash equivalents (Note B)	2,949,459
Taxes receivable (Note C)	425,851
Accounts receivable	5,136
Due from other governmental units (Note C)	3,614,343
Inventory (Note A)	95,744
Total Current Assets	<u>7,091,583</u>
Noncurrent Assets	
Capital assets (Note E)	44,657,427
Less accumulated depreciation	<u>(13,952,066)</u>
Total Noncurrent Assets	<u>30,705,361</u>
Total Assets	<u>37,796,944</u>
Liabilities	
Current Liabilities	
Accounts payable	590,268
Due to other governmental units	569,878
Accrued interest payable	314,681
Salaries payable	1,509,895
Deferred revenue	553,443
Current portion of long term obligations	<u>1,955,000</u>
Total Current Liabilities	<u>5,493,165</u>
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	34,375,000
Early retirement incentive	277,370
Accumulated sick leave	340,078
Unamortized bond premium	<u>258,644</u>
Total Noncurrent Liabilities	<u>35,251,092</u>
Total Liabilities	<u>40,744,257</u>
Net Assets	
Invested in capital assets, net of related debt	(5,468,283)
Restricted for:	
Debt service	100,874
Unrestricted	<u>2,420,096</u>
Total Net Assets	<u><u>\$ (2,947,313)</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 18,414,148	\$ 109,571	\$ 3,251,839	\$(15,052,738)
Supporting services	11,772,737	8,542	684,625	(11,079,570)
Community services	306,614	127,651	-	(178,963)
Food service	1,247,295	731,915	491,859	(23,521)
Athletics	425,676	148,158	-	(277,518)
Other	13,952	-	-	(13,952)
Interest expense	1,159,145	-	-	(1,159,145)
Total Governmental Activities	\$ 33,339,567	\$ 1,125,837	\$ 4,428,323	(27,785,407)
General Revenues				
Taxes:				
Property taxes, levied for general operations				9,885,740
Property taxes, levied for debt service				3,502,126
State school aid, unrestricted				15,859,861
Interest and investment earnings				98,534
Gain on sale of capital assets				4,347
Other				337,022
Total General Revenues				29,687,630
Change in Net Assets				1,902,223
Net Assets - Beginning of Year				(4,849,536)
Net Assets - End of Year				\$ (2,947,313)

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash	\$ 400	\$ 650	\$ 1,050
Cash equivalents (Note B)	2,588,372	361,087	2,949,459
Receivable:			
Taxes (Note C)	354,617	71,234	425,851
Accounts	5,136	-	5,136
Due from other funds (Note D)	7,440	53,012	60,452
Due from other governmental units (Note C)	3,602,986	11,357	3,614,343
Inventory (Note A)	73,169	22,575	95,744
Total Assets	<u><u>\$ 6,632,120</u></u>	<u><u>\$ 519,915</u></u>	<u><u>\$ 7,152,035</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	590,268	\$ -	\$ 590,268
Due to other funds (Note D)	53,012	7,440	60,452
Due to other governmental units	569,878	-	569,878
Salaries payable	1,509,895	-	1,509,895
Deferred revenue	891,185	88,109	979,294
Total Liabilities	<u>3,614,238</u>	<u>95,549</u>	<u>3,709,787</u>
Fund Balances			
Reserved for:			
Debt service	-	344,321	344,321
Unreserved:			
Undesignated, reported in:			
General fund	3,017,882	-	3,017,882
Special revenue funds	-	80,045	80,045
Total Fund Balances	<u>3,017,882</u>	<u>424,366</u>	<u>3,442,248</u>
Total Liabilities and Fund Balances	<u><u>\$ 6,632,120</u></u>	<u><u>\$ 519,915</u></u>	<u><u>\$ 7,152,035</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances		\$ 3,442,248
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$44,657,427 and accumulated depreciation is \$13,952,066.		
		30,705,361
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		
		(258,644)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(35,915,000)	
Early retirement incentive	(627,370)	
Accumulated sick leave	(405,078)	
	<u>(405,078)</u>	(36,947,448)
Accrued interest is not included as a liability in governmental funds.		
		(314,681)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>425,851</u>
Total net assets - governmental activities		<u><u>\$ (2,947,313)</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	Nonmajor	Total
Revenues			
Local sources	\$ 10,612,348	\$ 4,423,944	\$ 15,036,292
State sources	16,399,470	80,123	16,479,593
Federal sources	984,655	411,736	1,396,391
Interdistrict sources	2,412,200	-	2,412,200
Total Revenues	<u>30,408,673</u>	<u>4,915,803</u>	<u>35,324,476</u>
Expenditures			
Current:			
Instruction	16,997,752	-	16,997,752
Supporting services	9,712,229	-	9,712,229
Community services	297,130	-	297,130
Food service	-	1,233,487	1,233,487
Athletics	-	415,599	415,599
Debt service:			
Principal repayment	-	1,395,000	1,395,000
Interest and fiscal charges	-	1,215,069	1,215,069
Bond issuance costs	-	185,590	185,590
Underwriter's discount	-	155,205	155,205
Interdistrict	2,356,583	-	2,356,583
Total Expenditures	<u>29,363,694</u>	<u>4,599,950</u>	<u>33,963,644</u>
Excess of Revenues Over Expenditures	<u>1,044,979</u>	<u>315,853</u>	<u>1,360,832</u>
Other Financing Sources (Uses)			
Refunding bonds issued	-	34,490,000	34,490,000
Bond premium	-	2,388,978	2,388,978
Transfers in	-	298,509	298,509
Payments to escrow agents	-	(37,634,539)	(37,634,539)
Transfers out	(298,509)	-	(298,509)
Other	(13,952)	-	(13,952)
Total Other Financing Sources (Uses)	<u>(312,461)</u>	<u>(457,052)</u>	<u>769,513</u>
Net Change In Fund Balances	732,518	(141,199)	591,319
Fund Balances, Beginning of Year	<u>2,285,364</u>	<u>565,565</u>	<u>2,850,929</u>
Fund Balances, End of Year	<u><u>\$ 3,017,882</u></u>	<u><u>\$ 424,366</u></u>	<u><u>\$ 3,442,248</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balances - total governmental funds **\$ 591,319**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 63,885	
Depreciation expense	<u>(1,185,501)</u>	(1,121,616)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (82,686)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. (258,644)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (34,490,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 37,240,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. 55,924

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$459,234) exceeded the amounts used/paid (\$427,160). (32,074)

Total changes in net assets - governmental activities **\$ 1,902,223**

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 10,549,184	\$ 10,728,960	\$ 10,612,348	\$ (116,612)
State sources	16,916,587	16,475,450	16,399,470	(75,980)
Federal sources	1,072,555	1,082,610	984,655	(97,955)
Interdistrict sources	2,036,947	2,274,595	2,412,200	137,605
Total Revenues	<u>30,575,273</u>	<u>30,561,615</u>	<u>30,408,673</u>	<u>(152,942)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	14,585,424	14,215,557	13,918,261	297,296
Added needs	3,665,499	3,325,202	3,062,794	262,408
Adult education services	11,878	17,598	16,697	901
Supporting services:				
Pupil services	2,164,300	785,126	804,746	(19,620)
Instructional staff services	1,221,593	1,235,366	1,023,107	212,259
General administrative services	604,097	715,090	668,308	46,782
School administrative services	1,798,147	1,921,996	1,785,875	136,121
Business services	534,884	736,742	701,955	34,787
Operation and maintenance services	3,285,581	3,232,177	2,939,855	292,322
Pupil transportation services	1,861,327	1,287,960	1,262,529	25,431
Central services	682,458	585,846	525,854	59,992
Community services	325,111	316,472	297,130	19,342
Interdistrict	330,116	2,229,244	2,356,583	(127,339)
Total Expenditures	<u>31,070,415</u>	<u>30,604,376</u>	<u>29,363,694</u>	<u>1,240,682</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(495,142)</u>	<u>(42,761)</u>	<u>1,044,979</u>	<u>1,087,740</u>
Other Financing Sources (Uses)				
Transfers out	(358,000)	(297,663)	(298,509)	(846)
Other	-	-	(13,952)	(13,952)
Total Other Financing Sources (Uses)	<u>(358,000)</u>	<u>(297,663)</u>	<u>(312,461)</u>	<u>(14,798)</u>
Net Change In Fund Balances	<u>(853,142)</u>	<u>(340,424)</u>	<u>732,518</u>	<u>1,072,942</u>
Fund Balances, July 1	<u>2,285,364</u>	<u>2,285,364</u>	<u>2,285,364</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 1,432,222</u></u>	<u><u>\$ 1,944,940</u></u>	<u><u>\$ 3,017,882</u></u>	<u><u>\$ 1,072,942</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash equivalents (Note B)	\$ 23,714	\$ 77,946
Deposits (Note B)	<u>14,413</u>	<u>-</u>
Total Assets	<u><u>\$ 38,127</u></u>	<u><u>\$ 77,946</u></u>
 Liabilities		
Due to student groups	<u>-</u>	<u><u>\$ 77,946</u></u>
 Net Assets		
Held in trust for:		
Individuals and organizations	<u><u>\$ 38,127</u></u>	

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2005

	Private Purpose Trust Fund
Additions	
Interest earnings	\$ 270
Deductions	
Endowment activities - scholarships	<u>1,369</u>
Change In Net Assets	(1,099)
Net Assets, Beginning of Year	<u>39,226</u>
Net Assets, End of Year	<u><u>\$ 38,127</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note A – Summary of Significant Accounting Policies

Kenowa Hills Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,660 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kenowa Hills Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kenowa Hills Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kenowa Hills Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Assistant Superintendent for Business to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2005 has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$627,370 and \$405,078, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents and Deposits

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Depositories actively used by the District during the year are detailed as follows:

1. Chemical Bank West
2. Mercantile Bank
3. Chase Bank One

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 2,949,459
Fiduciary Funds	<u>116,073</u>
	<u><u>\$ 3,065,532</u></u>

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2005 balances are detailed as follows:

Cash equivalents	\$ 3,051,119
Deposits	<u>14,413</u>
	<u><u>\$ 3,065,532</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$3,065,532 and the bank balance was \$3,646,209. Of the bank balance, \$214,387 was covered by federal depository insurance and \$3,431,822 was uninsured.

Investments

As of June 30, 2005 the District had no investments. The District's policies to minimize investment risk are as follows:

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2004 ad valorem State Education Taxes generated within the Kenowa Hills Public School District, and paid to the State of Michigan, totaled \$4,544,827.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Kenowa Hills Public Schools was \$7,044 for 3,643 "Full Time Equivalent" students, generating \$16,529,407 in state aid payments to the District, of which \$2,991,243 was paid to the District in July and August, 2005 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the City of Walker and the Charter Townships of Alpine, Plainfield and Tallmadge and the Township of Wright. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Fund	Total
2004	\$ 60,260	\$ 12,371	\$ 72,631
2003	122,500	24,476	146,976
2002	171,857	34,387	206,244
	<u>\$ 354,617</u>	<u>\$ 71,234</u>	<u>\$ 425,851</u>

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Kenowa Hills Public Schools' electors had previously (June 8, 1992) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2004.

The District levied 3.60 mills in 2004 for debt service purposes.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases are limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables from other expenditures not yet reimbursed at June 30, 2005, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ 6,485	\$ 53,012
Debt Service Fund:		
1996 Debt Fund	955	—
Total General Fund	7,440	53,012
Special Revenue Funds		
Food Service Fund:		
General Fund	53,012	6,485
Debt Service Fund		
1996 Debt Fund		
General Fund	—	955
Total All Funds	\$ 60,452	\$ 60,452

Transfers between funds during the year ended June 30, 2005 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 31,072
Athletics Fund	—	267,437
Total General Fund	—	298,509
Special Revenue Funds		
Food Service Fund:		
General Fund	31,072	—
Athletics Fund:		
General Fund	267,437	—
Total Special Revenue Funds	298,509	—
Total All Funds	\$ 298,509	\$ 298,509

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The General Fund transfer to the Food Service Fund was made to allocate at-risk state aid. The General Fund transfer to the Athletics Fund was made to pay the General Fund share of the District's athletics program for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
Capital assets not depreciated:				
Land	\$ 1,108,000	\$ —	\$ —	\$ 1,108,000
Capital assets being depreciated:				
Land improvements	1,169,749	16,478	—	1,186,227
Buildings and additions	38,426,954	—	—	38,426,954
Furniture and equipment	1,610,750	47,407	—	1,658,157
Vehicles	2,419,301	—	141,212	2,278,089
	<u>44,734,754</u>	<u>\$ 63,885</u>	<u>\$ 141,212</u>	<u>44,657,427</u>
Totals at historical cost				
	44,734,754	\$ 63,885	\$ 141,212	44,657,427
Less accumulated depreciation for:				
Land improvements	473,383	\$ 54,077	\$ —	527,460
Buildings and additions	9,972,091	868,563	—	10,840,655
Furniture and equipment	1,151,936	87,812	—	1,239,748
Vehicles	1,310,367	175,048	141,212	1,344,203
	<u>12,907,777</u>	<u>\$1,185,500</u>	<u>\$ 141,212</u>	<u>13,952,066</u>
Total accumulated depreciation				
	12,907,777	\$1,185,500	\$ 141,212	13,952,066
Net Capital Assets	<u>\$ 31,826,977</u>			<u>\$ 30,705,361</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 912,835
Supporting services	237,100
Community services	9,484
Food service	16,004
Athletics	10,077
Unallocated	—
	<u>\$ 1,185,500</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2005 are summarized as follows:

	Bond Issues	Early Retirement Incentive	Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt				
Debt Service Funds	\$ 344,321	\$ —	\$ —	\$ 344,321
Amounts To Be Provided For Retirement Of Long-Term Debt				
General Fund	—	627,370	405,078	1,032,448
Debt Service Funds	35,570,679	—	—	35,570,679
Total Amounts Available and To Be Provided	\$ 35,915,000	\$ 627,370	\$ 405,078	\$ 36,947,448

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	Debt Outstanding July 1, 2004	Debt Added	Debt Retired	Debt Outstanding June 30, 2005
General obligation bonds:				
June 1, 1996	\$ 38,665,000	\$ —	\$ 37,240,000	\$ 1,425,000
March 17, 2005 Refunding	—	34,490,000	—	34,490,000
Early retirement incentive	617,095	371,932	361,657	627,370
Accumulated sick leave	383,279	87,302	65,503	405,078
	\$ 39,665,374	\$ 34,949,234	\$ 37,667,160	\$ 36,947,448

Long-term bonds outstanding at June 30, 2005 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$45,485M Building and Site June 1, 1996:				
Annual maturity of 1,425M	May 1, 2006	5.50	\$ 1,425,000	\$ 1,425,000
\$34,490M General Obligation Refunding Bonds				
March 17, 2005:				
Annual maturities of \$115M to 2,255M	May 1, 2026	3.00 – 5.00	34,490,000	115,000
			\$ 35,915,000	\$ 1,540,000

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2006	\$ 1,540,000	\$ 1,888,085	\$ 3,428,085
2007	1,915,000	1,609,162	3,524,162
2008	1,670,000	1,532,563	3,202,563
2009	1,835,000	1,465,762	3,300,762
2010	1,895,000	1,406,125	3,301,125
2011	1,970,000	1,330,325	3,300,325
2012	2,050,000	1,251,525	3,301,525
2013	2,150,000	1,149,025	3,299,025
2014	2,255,000	1,041,525	3,296,525
2015	2,370,000	928,775	3,298,775
2016	1,190,000	810,275	2,000,275
2017	1,250,000	753,750	2,003,750
2018	1,310,000	691,250	2,001,250
2019	1,375,000	625,750	2,000,750
2020	1,445,000	557,000	2,002,000
2021	1,520,000	484,750	2,004,750
2022	1,590,000	408,750	1,998,750
2023	1,670,000	329,250	1,999,250
2024	1,750,000	245,750	1,995,750
2025	1,760,000	158,250	1,918,250
2026	1,405,000	70,250	1,475,250
	<u>\$ 35,915,000</u>	<u>\$ 18,737,897</u>	<u>\$ 54,652,897</u>

On March 10, 2005, the District issued \$34,490,000 in general obligation bonds with a net interest cost of 4.291392% to advance refund \$35,845,000 of outstanding 1996 general obligation bonds with an average coupon of 5.825492% resulting in a net present value savings of \$4,244,629 (or 11.84162% of the refunded bonds). The net proceeds (\$37,634,638 after the net premium of \$2,388,977, District contribution of \$1,096,455 and payment of \$340,795 in underwriting fees, insurance and other issuance costs) were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2006). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

by the escrow agent to be used for the remaining principal and interest due of \$37,913,529 on the defeased debt at June 30, 2005 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	<u>\$ 36,747,111</u>	<u>\$ 36,747,111</u>	<u>\$ 36,747,111</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2005 was \$16,947,600. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 12.99% for the fiscal year ending September 30, 2004 and 14.87% for the fiscal year beginning October 1, 2004. The District's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$2,487,982, \$2,400,514 and \$2,392,339, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

Post-employment benefits for health, dental and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2005, there were no material pending claims against the District. The District paid \$110,944 in premiums to the Fund for the year ended June 30, 2005.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2005, there were no material pending claims against the District. The District paid \$80,105 in premiums to the Fund for the year ended June 30, 2005.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2005:

	Budget	Actual	Unfavorable Variance
Athletics Special Revenue Fund	\$ 407,976	\$ 415,599	\$ 7,623

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 400	\$ 400
Cash equivalents	2,588,372	1,957,163
Receivables:		
Taxes	354,617	422,828
Accounts	5,136	12,186
Due from other funds	7,440	-
Due from other governmental units	3,602,986	3,301,515
Inventory	<u>73,169</u>	<u>73,529</u>
Total Assets	<u><u>\$ 6,632,120</u></u>	<u><u>\$ 5,767,621</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 590,268	\$ 512,094
Due to other funds	53,012	-
Due to other governmental units	569,878	367,256
Salaries payable	1,509,895	1,719,140
Deferred revenue	<u>891,185</u>	<u>883,767</u>
Total Liabilities	<u>3,614,238</u>	<u>3,482,257</u>
Fund Balances		
Unreserved:		
Designated for Durant settlement expenses	-	1,550,375
Undesignated	<u>3,017,882</u>	<u>734,989</u>
Total Fund Balances	<u>3,017,882</u>	<u>2,285,364</u>
Total Liabilities and Fund Balances	<u><u>\$ 6,632,120</u></u>	<u><u>\$ 5,767,621</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	2005	2004
Local sources:		
Property taxes:		
Current property taxes	\$ 9,896,311	\$ 9,691,061
Delinquent property taxes	31,465	26,692
Other property taxes	10,476	16,098
Interest on delinquent taxes	15,699	16,157
	<u>9,953,951</u>	<u>9,750,008</u>
Interest earnings:		
Interest on deposits and investments	71,264	46,077
Other local revenue:		
Adult/community education fees	70,497	37,653
Driver education fees	54,455	67,019
Preschool/childcare fees	57,154	89,970
Copy center fees	43,254	-
Class fees	55,116	38,827
Rental of school facilities	37,125	30,547
Donations	4,246	9,822
Telephone commission reimbursements	8,542	48,431
Beverage consortium commissions	67,809	32,818
Sale of school property	4,347	177,538
Insurance refunds	104,516	79,703
Refunds of prior years expenditures	56,830	31,630
Miscellaneous	23,242	16,514
	<u>587,133</u>	<u>660,472</u>
Total local sources	10,612,348	10,456,557
State sources:		
State school aid	16,396,729	16,319,954
Driver education	-	39,372
School improvement	2,741	2,678
	<u>16,399,470</u>	<u>16,362,004</u>
Total state sources		
Federal sources:		
Title I	184,497	235,759
Title I - migrant	44,571	47,174
Title IIA	58,953	98,282
Title IID	931	12,233
Title III	19,000	20,903
Title V	3,112	2,963
Drug free schools	7,785	4,344
I.D.E.A. program	658,597	563,977
Medicaid - school based	7,209	11,704
EDP grant	-	1,000
	<u>984,655</u>	<u>998,339</u>
Total federal sources		
Interdistrict sources:		
Special education - county	67,651	100,432
Special education - transportation	684,625	-
Special education - local school districts	1,520,336	1,038,538
Durant settlement reimbursements	24,343	16,761
Medicaid fee for service	93,745	56,345
Career preparation	21,500	22,718
	<u>2,412,200</u>	<u>1,234,794</u>
Total interdistrict sources		
Total Revenues	<u><u>\$ 30,408,673</u></u>	<u><u>\$ 29,051,694</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 4,408,694	\$ 4,514,888
Other professionals	38,059	33,549
Teaching assistants	398,252	424,274
Substitutes	122,199	117,549
Severance pay	11,355	19,547
Employee benefits:		
Employee insurance	976,938	947,756
Early retirement incentive	17,033	71,250
Tuition reimbursement	39,010	29,194
Retirement	726,183	656,132
Social Security	382,831	396,942
Workers' compensation insurance	8,054	9,022
Unemployment compensation	-	368
Cash in lieu of benefits	55,452	41,746
Local travel	3,400	2,737
Workshops and conferences	7,317	11,028
Teaching supplies	117,366	156,406
Textbooks	61,107	52,284
Other supplies and materials	1,153	22,035
New equipment and furniture	9,398	151,950
Miscellaneous	1,520	5,800
	7,385,321	7,664,457
Middle school:		
Salaries:		
Teachers	1,452,995	1,539,025
Other professionals	21,401	23,698
Teaching assistants	32,413	37,063
Substitutes	43,018	49,961
Severance pay	1,161	5,266
Employee benefits:		
Employee insurance	298,742	265,477
Early retirement incentive	-	25,000
Tuition reimbursement	6,744	12,089
Retirement	229,643	217,387
Social Security	120,133	129,063
Workers' compensation insurance	2,486	2,868
Unemployment compensation	2,058	6,251
Cash in lieu of benefits	14,310	10,804
Local travel	450	247
Workshops and conferences	1,557	4,032
Teaching supplies	56,729	55,424
Textbooks	10,384	12,149
Other supplies and materials	-	4,444
New equipment and furniture	28,155	53,293
Dues and fees	359	1,023
Miscellaneous	2,611	2,027
	2,325,349	2,456,591

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
High school:		
Salaries:		
Teachers	\$ 2,427,374	\$ 2,474,207
Other professionals	61,618	61,139
Teaching assistants	78,162	105,084
Substitutes	57,108	54,304
Severance pay	-	6,922
Employee benefits:		
Employee insurance	517,684	470,194
Early retirement incentive	-	25,000
Tuition reimbursement	15,378	12,427
Retirement	385,733	354,711
Social Security	200,733	210,586
Workers' compensation insurance	4,225	4,710
Unemployment compensation	1,474	9,312
Cash in lieu of benefits	20,181	22,700
Dual enrollment tuition	2,210	900
Local travel	315	529
Workshops and conferences	4,595	8,731
Tuition	20,393	15,435
Teaching supplies	107,958	114,003
Textbooks	9,565	3,905
Other supplies and materials	31,608	23,992
New equipment and furniture	180,469	18,677
Dues and fees	1,000	5,900
Miscellaneous	11,481	20,094
	4,139,264	4,023,462
Preschool:		
Salaries:		
Teachers	38,556	37,432
Teaching assistants	11,083	11,007
Substitutes	858	670
Employee benefits:		
Employee insurance	1,927	12,306
Retirement	7,451	7,002
Social Security	4,020	4,124
Workers' compensation insurance	81	91
Cash in lieu of benefits	2,052	-
Contracted services	-	4,800
Local travel	79	135
Workshops and conferences	438	460
Teaching supplies	1,575	1,602
Miscellaneous	207	198
	68,327	79,827
Total basic programs	13,918,261	14,224,337

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Added needs:		
Special education:		
Salaries:		
Teachers	\$ 1,189,360	\$ 1,185,612
Teaching assistants	148,633	218,623
Substitutes	23,984	13,933
Employee benefits:		
Employee insurance	282,526	289,947
Retirement	200,177	184,034
Social Security	104,733	109,481
Workers' compensation insurance	2,209	2,412
Cash in lieu of benefits	18,790	13,020
Purchased services	15,050	13,947
Local travel	996	891
Workshops and conferences	2,139	2,449
Teaching supplies	12,054	13,892
Textbooks	4,088	-
Office supplies	200	200
Miscellaneous	607	498
	2,005,546	2,048,939
Compensatory education:		
Salaries:		
Teachers	404,104	413,254
Teaching assistants	105,512	114,613
Substitutes	24,882	11,426
Employee benefits:		
Employee insurance	83,717	84,329
Medical reimbursement	140	210
Retirement	78,002	69,926
Social Security	40,340	41,340
Workers' compensation insurance	866	921
Cash in lieu of benefits	8,296	1,457
Instructional services	5,800	5,900
Local travel	631	436
Workshops and conferences	6,333	2,302
Teaching supplies	7,938	11,736
Miscellaneous	1,585	2,316
	768,146	760,166
Career and technology education:		
Salaries:		
Teachers	143,983	141,838
Teaching assistants	-	4,948
Other professionals	9,032	18,826
Substitutes	2,548	1,752
Employee benefits:		
Employee insurance	27,280	27,139
Retirement	22,801	21,740
Social Security	11,849	12,803
Workers' compensation insurance	249	289

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Career and technology education: (Continued)		
Local travel	\$ 779	\$ 492
Workshops and conferences	7,286	2,970
Teaching supplies	36,027	16,334
Miscellaneous supplies	16,202	2,250
New equipment and furniture	11,066	21,931
	<u>289,102</u>	<u>273,312</u>
Total added needs	3,062,794	3,082,417
Adult basic education:		
Salaries:		
Teachers	8,639	9,682
Employee benefits:		
Retirement	1,275	1,258
Social Security	661	741
Workers' compensation insurance	14	17
Unemployment	408	-
Contracted services	5,700	-
	<u>16,697</u>	<u>11,698</u>
Pupil services:		
Attendance services:		
Administrative assistant salary	39,705	40,468
Employee benefits:		
Employee insurance	9,054	2,195
Retirement	5,818	2,381
Social Security	3,108	1,385
Workers' compensation insurance	65	108
Cash in lieu of benefits	1,157	-
	<u>58,907</u>	<u>46,537</u>
Guidance services:		
Salaries:		
Counselors	326,199	343,579
Clerical	91,553	92,135
Severance pay	630	10,031
Employee benefits:		
Employee insurance	80,491	82,265
Early retirement incentive	6,790	25,000
Tuition reimbursement	-	600
Retirement	61,126	56,599
Social Security	31,709	34,337
Workers' compensation insurance	867	911
Cash in lieu of benefits	5,280	3,600
Purchased services	-	7,018
Local travel	143	332
Workshops and conferences	1,192	1,339
Supplies	10,187	13,427
Dues and fees	-	140
Miscellaneous	-	235
	<u>616,167</u>	<u>671,548</u>

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Occupational therapist services:		
Occupational therapist salary	-	46,666
Employee benefits:		
Employee insurance	-	9,046
Tuition reimbursement	854	-
Retirement	-	6,062
Social Security	-	3,570
Workers' compensation insurance	-	79
Contracted services	22,937	-
Local travel	372	606
Workshops and conferences	50	273
Miscellaneous supplies	535	970
	<u>24,748</u>	<u>67,272</u>
Psychological services:		
Psychologists salaries	-	145,941
Employee benefits:		
Employee insurance	-	22,616
Retirement	-	18,438
Social Security	-	10,858
Workers' compensation insurance	-	241
Local travel	408	685
Workshops and conferences	-	210
Miscellaneous supplies	1,844	4,143
	<u>2,252</u>	<u>203,132</u>
Speech pathology services:		
Salaries:		
Speech pathologists	5,528	214,697
Severance pay	-	3,375
Employee benefits:		
Employee insurance	-	40,709
Retirement	-	27,889
Social Security	256	16,682
Workers' compensation insurance	9	365
Local travel	743	771
Workshops and conferences	754	1,375
Supplies	2,160	2,688
Miscellaneous	-	378
	<u>9,450</u>	<u>308,929</u>
Social worker services:		
Social workers salaries	-	388,392
Employee benefits:		
Employee insurance	-	66,086
Tuition reimbursement	-	660
Retirement	-	50,452
Social Security	-	30,152
Workers' compensation insurance	-	670
Cash in lieu of benefits	-	5,752
Local travel	1,358	1,160
Workshops and conferences	542	1,298
Testing supplies	2,585	2,753
Dues and fees	100	200
	<u>4,585</u>	<u>547,575</u>

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Teacher consultant services:		
Teacher consultants salaries	\$ 42,225	\$ 172,668
Employee benefits:		
Employee insurance	6,724	28,722
Retirement	6,244	22,430
Social Security	3,358	13,209
Workers' compensation insurance	68	294
Local travel	804	1,044
Teaching supplies	587	1,619
	<u>60,010</u>	<u>239,986</u>
Other pupil services:		
Salaries:		
Instructional consultant	6,932	2,452
Teaching assistants	2,886	2,882
Employee benefits:		
Retirement	1,453	517
Social Security	748	304
Workers' compensation insurance	16	9
Instructional program improvement	7,093	3,600
Workshops and conferences	2,057	1,518
Teaching supplies	7,349	10,100
Miscellaneous	93	243
	<u>28,627</u>	<u>21,625</u>
Total pupil services	804,746	2,106,604
Instructional staff services:		
Improvement of instruction:		
Salaries:		
Substitutes	62,267	73,141
Employee benefits:		
Retirement	8,856	9,463
Social Security	4,733	5,596
Workers' compensation insurance	100	123
Purchased services	48,400	14,756
Instructional program improvement	46,542	65,124
Workshops and conferences	29,437	23,230
Teaching supplies	12,496	28,089
Furniture and equipment	-	10,616
Miscellaneous	(885)	3,137
	<u>211,946</u>	<u>233,275</u>
Educational media services:		
Salaries:		
Librarians	272,999	298,065
Teaching assistants	80,338	100,183
Employee benefits:		
Employee insurance	58,185	60,678
Retirement	52,026	51,733
Social Security	27,390	31,286
Workers' compensation insurance	577	774
Cash in lieu of benefits	6,840	10,712

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Educational media services: (Continued)		
Teaching supplies	\$ 8,633	\$ 9,189
Library books and supplies	40,818	73,175
Periodicals	2,318	2,124
Miscellaneous supplies	864	-
Dues and fees	27,771	30,363
	<u>578,759</u>	<u>668,282</u>
Supervision and direction of instruction:		
Salaries:		
Supervisor	103,250	102,783
Clerical	52,265	52,520
Employee benefits:		
Employee insurance	29,270	28,856
Tuition reimbursement	828	-
Retirement	22,718	19,824
Social Security	11,332	11,674
Workers' compensation insurance	354	363
Cash in lieu of benefits	-	720
Local travel	1,434	1,052
Workshops and conferences	8,492	10,952
Supplies	1,459	590
Office supplies	950	-
Miscellaneous	50	198
	<u>232,402</u>	<u>229,532</u>
Total instructional staff services	1,023,107	1,131,089
General administrative services:		
Board of education:		
Board members salaries	2,318	3,023
Social Security	177	231
Legal services	103,386	98,718
Audit services	26,084	23,758
Professional consulting services	19,725	11,226
Local travel	408	372
Workshops and conferences	3,565	1,491
Election workers	-	3,172
Other supplies and materials	-	2,214
Dues and fees	5,247	5,110
Miscellaneous	2,045	1,692
	<u>162,955</u>	<u>151,007</u>
Executive administration:		
Salaries:		
Superintendent	117,905	117,905
Assistant superintendent	94,900	94,900
Clerical	126,752	136,286
Employee benefits:		
Employee insurance	53,210	43,080
Tuition reimbursement	2,178	-
Board paid annuities	-	12,500
Retirement	50,850	46,979

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Executive administration: (Continued)		
Employee benefits: (Continued)		
Social Security	\$ 23,688	\$ 24,741
Workers' compensation insurance	817	853
Cash in lieu of benefits	13,880	4,860
Local travel	3,386	6,532
Workshops and conferences	3,402	1,787
Internet services	2,388	2,388
Printing and binding	2,398	3,342
Equipment repair and maintenance	830	584
Office supplies	4,036	5,959
New equipment and furniture	180	4,325
Dues and fees	2,635	3,009
Miscellaneous	1,918	4,570
	<u>505,353</u>	<u>514,600</u>
Total general administrative services	668,308	665,607
School administrative services:		
Office of the principal:		
Salaries:		
Principals	796,177	792,831
Clerical	436,474	418,943
Severance pay	692	5,125
Employee benefits:		
Employee insurance	219,977	200,734
Tuition reimbursement	11,054	4,840
Retirement	167,841	156,577
Social Security	95,124	94,262
Workers' compensation insurance	2,862	2,857
Cash in lieu of benefits	17,209	14,431
Local travel	7,733	8,085
Workshops and conferences	3,670	6,693
Equipment repair and maintenance	1,219	5,015
Office supplies	4,732	5,231
New equipment and furniture	2,399	29,743
Dues and fees	18,700	7,714
Miscellaneous	12	-
	<u>1,785,875</u>	<u>1,753,081</u>
Total school administrative services		
Business services:		
Fiscal services:		
Salaries:		
Business manager	98,218	98,218
Accounting	139,808	139,247
Severance pay	456	-
Employee benefits:		
Employee insurance	7,643	8,206
Tuition reimbursement	-	946
Retirement	34,248	30,847
Social Security	18,146	18,126

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Fiscal services: (Continued)		
Employee benefits: (Continued)		
Workers' compensation insurance	\$ 666	\$ 668
Cash in lieu of benefits	8,835	9,120
Purchased services	12,172	9,906
Local travel	1,262	1,355
Workshops and conferences	861	1,409
Printing and binding	57	67
Equipment repair and maintenance	129	90
Office supplies	5,559	6,734
New equipment and furniture	5,701	22
Dues and fees	158	362
Miscellaneous	105	1,957
	334,024	327,280
Internal services:		
Other salaries	71,008	71,822
Employee benefits:		
Employee insurance	21,234	23,436
Retirement	10,252	9,320
Social Security	5,524	5,423
Workers compensation insurance	116	192
Cash in lieu of benefits	1,525	-
Local travel	316	362
Equipment repair and maintenance	21,126	34,319
Interdistrict copy charges	-	(32,521)
Miscellaneous supplies	10,187	-
Replacement equipment and furniture	31,654	50,589
	172,942	162,942
Other business services:		
Tax collection fees	1,877	1,876
Insurance and bonds	6,360	5,942
Other supplies and materials	15,115	15,382
Interest	1,734	-
Claims and judgements	878	-
Property tax refunds	168,868	26,458
Miscellaneous	157	58
	194,989	49,716
Total business services	701,955	539,938
Operation and maintenance services:		
Operation and maintenance:		
Salaries:		
Supervisors	65,976	65,138
Drivers	1,637	30,536
Custodial	787,033	846,585
Severance pay	-	450

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Operation and maintenance services: (Continued)		
Employee benefits:		
Employee insurance	\$ 287,681	\$ 252,343
Physicals	1,184	-
Retirement	121,110	119,712
Social Security	65,243	72,395
Workers' compensation insurance	30,308	38,105
Unemployment compensation	3,040	319
Cash in lieu of benefits	2,301	-
Architect services	365	2,979
Professional services	490	1,336
Local travel	1,995	2,626
Workshops and conferences	20	702
Telephone	37,491	38,712
Water and sewer	57,905	55,439
Waste and trash disposal	21,698	21,620
Snow removal	52,930	48,845
Property and liability insurance	87,944	73,638
Land and building repair and maintenance	111,842	338,209
Equipment repair and maintenance	8,013	15,051
Vehicle repair and maintenance	-	380
Equipment rental	7,338	10,177
Purchased services	381,379	332,166
Heating	224,987	193,813
Electricity	357,525	376,430
Custodial supplies	44,436	58,913
Other supplies and materials	63,923	69,652
New equipment and furniture	5,708	35,222
Replacement equipment and furniture	5,319	19,394
Dues and fees	2,893	2,745
Miscellaneous	23	416
	<u>2,839,737</u>	<u>3,124,048</u>
Security services:		
Security salaries	61,464	62,670
Employee benefits:		
Employee insurance	24,800	4,335
Retirement	9,059	3,344
Social Security	4,795	1,936
	<u>100,118</u>	<u>72,285</u>
Total operation and maintenance services	2,939,855	3,196,333
Pupil transportation services:		
Pupil transportation:		
Salaries:		
Supervisors	36,653	45,080
Drivers	529,049	570,930
Clerical	29,661	22,813
Assistants	58,634	36,793
Mechanics	66,398	78,856
Severance pay	3,294	3,942

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Pupil transportation services: (Continued)		
Employee benefits:		
Employee insurance	\$ 47,678	\$ 63,584
Tuition reimbursement	3,255	2,585
Board paid annuities	-	639
Medical reimbursement	3,598	2,469
Retirement	104,484	99,326
Social Security	57,025	60,589
Workers' compensation insurance	13,918	12,594
Unemployment compensation	790	3,231
Cash in lieu of benefits	24,378	23,885
Contracted services	-	4,273
Local travel	265	378
Workshops and conferences	1,569	1,272
Pupil transportation	2,083	1,098
Printing and binding	133	100
Transportation insurance	23,000	24,237
Equipment repair and maintenance	613	1,373
Vehicle repair and maintenance	22,940	18,516
Other repair and maintenance	-	4,000
Gasoline, oil and grease	133,716	105,879
Tires, tubes and batteries	10,847	8,217
Vehicle repair parts	76,125	53,411
Other supplies and materials	9,068	4,597
New buses	-	294,525
Dues and fees	2,370	738
Miscellaneous	985	2,279
Total pupil transportation services	1,262,529	1,552,209
Central services:		
Communications services:		
Mailing and postage	46,577	53,885
Internet services	4,314	6,275
Advertising	2,053	3,063
Printing and binding	10,476	10,972
	63,420	74,195
Staff/personnel services:		
Employee benefits:		
Employee insurance	-	(1,025)
Medical reimbursement	2,425	913
Unemployment compensation	-	2,439
Other professional services	2,961	3,527
Workshops and conferences	-	746
Other supplies and materials	709	1,889
	6,095	8,489
Technology services:		
Salaries:		
Director	60,955	61,339
Information management	172,632	197,996
Severance pay	432	-

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Technology services: (Continued)		
Employee benefits:		
Employee insurance	\$ 59,228	\$ 65,100
Retirement	33,609	33,688
Social Security	18,025	19,613
Workers' compensation insurance	379	692
Unemployment compensation	2,350	2,009
Cash in lieu of benefits	2,792	-
Data processing services	135	9,673
Local travel	192	357
Workshops and conferences	9,126	7,065
Internet services	54,720	54,822
Equipment repair and maintenance	45	4,286
Other supplies and materials	18,538	40,003
New equipment and furniture	7,428	20,501
Replacement equipment and furniture	15,753	40,671
	<u>456,339</u>	<u>557,815</u>
Total central services	525,854	640,499
Community services:		
Community recreation:		
Salaries:		
Director	14,936	21,313
Teachers	72,596	105,417
Clerical	42,912	45,098
Teaching assistants	19,848	20,402
Employee benefits:		
Employee insurance	3,880	10,346
Medical reimbursement	-	53
Retirement	20,962	23,341
Social Security	11,569	14,668
Workers' compensation insurance	326	625
Unemployment	2,932	-
Cash in lieu of benefits	1,988	-
Local travel	175	228
Workshops and conferences	200	419
Field trips	915	659
Telephone	272	309
Printing and duplicating	323	33
Vehicle insurance	4,000	3,000
Equipment repair and maintenance	156	583
Vehicle repair and maintenance	-	303
Vehicle rental	6,722	9,813
Gasoline, oil and grease	2,237	2,823
Vehicle repair parts	-	188
Supplies	7,635	9,742
New equipment and furniture	-	298
Miscellaneous	8,130	9,626
	<u>222,714</u>	<u>279,287</u>

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Performing Arts Center:		
Salaries:		
Director	\$ 44,965	\$ 47,084
Teaching assistants	1,250	1,055
Employee benefits:		
Employee insurance	6,618	5,336
Retirement	6,508	6,116
Social Security	3,528	3,652
Workers' compensation insurance	74	172
Pupil services	3,387	525
Local travel	291	176
Printing	92	-
Teaching supplies	4,737	4,674
New equipment and furniture	2,966	13,020
	<u>74,416</u>	<u>81,810</u>
Total community services	297,130	361,097
Interdistrict:		
Special education - tuition	441,582	450,334
Special education - transportation	606,440	483,893
Special education - itinerants	1,278,622	-
Alternative education	29,939	20,013
Total interdistrict	<u>2,356,583</u>	<u>954,240</u>
Total Expenditures	<u><u>\$ 29,363,694</u></u>	<u><u>\$ 30,219,149</u></u>

NONMAJOR FUNDS

KENOWA HILLS PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2005

	Special Revenue		Debt Service	Total
	Food Service	Athletics	1996	
Assets				
Cash	\$ 650	\$ -	\$ -	\$ 650
Cash equivalents	16,773	-	344,314	361,087
Taxes receivable	-	-	71,234	71,234
Due from other funds	53,012	-	-	53,012
Due from other governmental units	10,395	-	962	11,357
Inventory	22,575	-	-	22,575
Total Assets	<u>\$ 103,405</u>	<u>\$ -</u>	<u>\$ 416,510</u>	<u>\$ 519,915</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 6,485	\$ -	\$ 955	\$ 7,440
Deferred revenue	16,875	-	71,234	88,109
Total Liabilities	<u>23,360</u>	<u>-</u>	<u>72,189</u>	<u>95,549</u>
Fund Balances				
Reserved for debt service	-	-	344,321	344,321
Unreserved:				
Undesignated	80,045	-	-	80,045
Total Fund Balances	<u>80,045</u>	<u>-</u>	<u>344,321</u>	<u>424,366</u>
Total Liabilities and Fund Balances	<u>\$ 103,405</u>	<u>\$ -</u>	<u>\$ 416,510</u>	<u>\$ 519,915</u>

KENOWA HILLS PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2005

	Special Revenue		Debt Service	
	Food Service	Athletics	1996	Total
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 3,516,601	\$ 3,516,601
Interest earnings	2,243	4	25,023	27,270
Sales and admissions	731,915	148,158	-	880,073
Total local sources	734,158	148,162	3,541,624	4,423,944
State sources	80,123	-	-	80,123
Federal sources	411,736	-	-	411,736
Total Revenues	1,226,017	148,162	3,541,624	4,915,803
Expenditures				
Current:				
Food service	1,233,487	-	-	1,233,487
Athletics	-	415,599	-	415,599
Debt service:				
Principal repayment	-	-	1,395,000	1,395,000
Interest and fiscal charges	-	-	1,215,069	1,215,069
Bond issuance costs	-	-	185,590	185,590
Underwriter's discount	-	-	155,205	155,205
Total Expenditures	1,233,487	415,599	2,950,864	4,599,950
Excess (Deficiency) of Revenues Over Expenditures	(7,470)	(267,437)	590,760	315,853
Other Financing Sources (Uses)				
Refunding bonds issued	-	-	34,490,000	34,490,000
Bond premium	-	-	2,388,978	2,388,978
Transfers in	31,072	267,437	-	298,509
Payments to escrow agent	-	-	(37,634,539)	(37,634,539)
Total Other Financing Sources (Uses)	31,072	267,437	(755,561)	(457,052)
Net Change In Fund Balances	23,602	-	(164,801)	(141,199)
Fund Balances, July 1	56,443	-	509,122	565,565
Fund Balances, June 30	\$ 80,045	\$ -	\$ 344,321	\$ 424,366

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 500	\$ 2,243	\$ 1,743	\$ 502
Sales and admissions	768,797	731,915	(36,882)	741,538
Total local sources	769,297	734,158	(35,139)	742,040
State sources	75,200	80,123	4,923	74,183
Federal sources	417,017	411,736	(5,281)	391,517
Total Revenues	1,261,514	1,226,017	(35,497)	1,207,740
Expenditures				
Current:				
Food service	1,286,943	1,233,487	53,456	1,232,816
Excess (Deficiency) of Revenues Over Expenditures	(25,429)	(7,470)	17,959	(25,076)
Other Financing Sources				
Transfers in	30,101	31,072	971	30,101
Net Change In Fund Balances	4,672	23,602	18,930	5,025
Fund Balances, July 1	56,443	56,443	-	51,418
Fund Balances, June 30	\$ 61,115	\$ 80,045	\$ 18,930	\$ 56,443

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 5	\$ 4	\$ (1)	\$ 26
Sales and admissions	134,200	148,158	13,958	121,748
Total Revenues	134,205	148,162	13,957	121,774
Expenditures				
Current:				
Athletics	407,976	415,599	(7,623)	391,498
Excess (Deficiency) of Revenues Over Expenditures	(273,771)	(267,437)	6,334	(269,724)
Other Financing Sources				
Transfers in	273,771	267,437	(6,334)	269,724
Net Change In Fund Balances	-	-	-	-
Fund Balances, July 1	-	-	-	-
Fund Balances, June 30	\$ -	\$ -	\$ -	\$ -

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 650	\$ 650
Cash equivalents	16,773	45,574
Due from other funds	53,012	-
Due from other governmental units	10,395	9,808
Inventory	<u>22,575</u>	<u>14,759</u>
Total Assets	<u><u>\$ 103,405</u></u>	<u><u>\$ 70,791</u></u>
 Liabilities and Fund Balances		
Liabilities		
Due to other funds	\$ 6,485	\$ -
Deferred revenue	<u>16,875</u>	<u>14,348</u>
Total Liabilities	<u>23,360</u>	<u>14,348</u>
Fund Balances		
Unreserved:		
Undesignated	<u>80,045</u>	<u>56,443</u>
Total Liabilities and Fund Balance	<u><u>\$ 103,405</u></u>	<u><u>\$ 70,791</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 479,051	\$ 479,049
Adult lunches and banquets	12,634	15,232
Milk	5,028	4,159
Ala carte	206,204	242,672
Other	28,998	426
	<u>731,915</u>	<u>741,538</u>
Interest earnings:		
Interest on investments	2,243	502
Total local sources	<u>734,158</u>	<u>742,040</u>
State sources	80,123	74,183
Federal sources	<u>411,736</u>	<u>391,517</u>
Total Revenues	<u>1,226,017</u>	<u>1,207,740</u>
Expenditures		
Current:		
Food service:		
Food service salaries	470,208	459,298
Employee benefits:		
Employee insurance	9,179	15,776
Retirement	68,194	59,678
Social security	40,517	38,117
Workers' compensation insurance	10,034	12,768
Cash in lieu of benefits	40,740	39,490
Contracted services	12,167	20,249
Local travel	595	459
Workshops and conferences	180	45
Printing and binding	-	555
Equipment rental	4,153	4,350
Food	466,911	487,592
Milk	73,548	73,767
Office supplies	1,314	1,121
Other supplies and materials	3,746	8,371
New equipment and furniture	24,224	7,217
Miscellaneous	7,777	3,963
	<u>1,233,487</u>	<u>1,232,816</u>
Total Expenditures	<u>1,233,487</u>	<u>1,232,816</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,470)</u>	<u>(25,076)</u>
Other Financing Sources		
Transfers in	<u>31,072</u>	<u>30,101</u>
Net Change In Fund Balances	23,602	5,025
Fund Balances, July 1	<u>56,443</u>	<u>51,418</u>
Fund Balances, June 30	<u><u>\$ 80,045</u></u>	<u><u>\$ 56,443</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances		
Unreserved:		
Undesignated	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ -</u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Admissions	\$ 67,683	\$ 67,544
Participation fees	44,986	38,907
Tournament revenue	35,284	14,891
Miscellaneous	205	406
	<u>148,158</u>	<u>121,748</u>
Interest earnings:		
Interest on investments	4	26
	<u>4</u>	<u>26</u>
Total Revenues	<u>148,162</u>	<u>121,774</u>
Expenditures		
Current:		
Athletics:		
Salaries:		
Coaches	207,327	209,745
Other	20,749	22,853
Employee benefits:		
Retirement	31,575	29,205
Social Security	17,393	17,985
Workers' compensation insurance	365	398
Officials	25,254	23,148
Local travel	1,887	150
Workshops and conferences	309	937
Printing and binding	1,636	2,118
Equipment repair and maintenance	6,332	6,944
Other rentals	5,980	5,980
Other purchased services	18,842	11,906
Office supplies	724	774
Other supplies	54,684	36,478
New furniture and equipment	6,650	8,655
Dues and fees	14,892	12,048
Miscellaneous	1,000	2,174
	<u>415,599</u>	<u>391,498</u>
Total Expenditures	<u>415,599</u>	<u>391,498</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(267,437)</u>	<u>(269,724)</u>
Other Financing Sources		
Transfers in	267,437	269,724
	<u>267,437</u>	<u>269,724</u>
Net Change In Fund Balances	-	-
Fund Balances, July 1	-	-
	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u>\$ -</u>	<u>\$ -</u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENOWA HILLS PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2005

	<u>Balances</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2005</u>
Assets				
Cash equivalents	<u>\$ 77,754</u>	<u>\$ 261,161</u>	<u>\$ 260,969</u>	<u>\$ 77,946</u>
Liabilities				
Due to student groups	<u>\$ 77,754</u>	<u>\$ 261,161</u>	<u>\$ 260,969</u>	<u>\$ 77,946</u>

OTHER INFORMATION

KENOWA HILLS PUBLIC SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	Kent County			Ottawa	
	Cities of			Townships of	
	Grand Rapids	Walker	Alpine	Plainfield	Tallmadge
Taxable Valuations					
Operating	\$ 78,499	\$446,203,410	\$ 91,666,161	\$ 163,089	\$ 6,075,277
Debt Service	975,599	701,832,741	162,427,036	1,121,127	44,293,415
Rates (Mills)					
General Fund					
1996 Debt Service Fund					
Taxes Levied 2004 Rolls					
General Fund	\$ 1,413	\$ 7,990,810	\$ 1,649,990	\$ 2,936	\$ 109,355
1996 Debt Service Fund	3,512	2,526,575	584,732	4,036	159,456
	<u>4,925</u>	<u>10,517,385</u>	<u>2,234,722</u>	<u>6,972</u>	<u>268,811</u>
Taxes Uncollected 2004 Rolls					
General Fund	-	52,887	2,850	98	1,113
1996 Debt Service Fund	-	10,578	570	21	540
	<u>-</u>	<u>63,465</u>	<u>3,420</u>	<u>119</u>	<u>1,653</u>
Taxes Collected 2004 Rolls					
General Fund	1,413	7,937,923	1,647,140	2,838	108,242
1996 Debt Service Fund	3,512	2,515,997	584,162	4,015	158,916
	<u>4,925</u>	<u>10,453,920</u>	<u>2,231,302</u>	<u>6,853</u>	<u>267,158</u>
Delinquent Taxes Collected					
General Fund	-	28,844	60	-	1,968
1996 Debt Service Fund	-	5,839	14	-	394
	<u>-</u>	<u>34,683</u>	<u>74</u>	<u>-</u>	<u>2,362</u>
Total Taxes Collected					
General Fund	1,413	7,966,767	1,647,200	2,838	110,210
1996 Debt Service Fund	3,512	2,521,836	584,176	4,015	159,310
	<u>4,925</u>	<u>10,488,603</u>	<u>2,231,376</u>	<u>6,853</u>	<u>269,520</u>
Taxes Uncollected – June 30, 2005					
General Fund:					
2004	\$ -	\$ 52,887	\$ 2,850	\$ 98	\$ 1,113
2003	-	98,080	15,504	52	6,191
2002	-	149,955	15,348	-	5,659
	<u>-</u>	<u>300,922</u>	<u>33,702</u>	<u>150</u>	<u>12,963</u>
1996 Debt Service Fund:					
2004	-	10,578	570	21	540
2003	-	19,543	3,099	11	1,238
2002	-	29,992	3,068	-	1,132
	<u>-</u>	<u>60,113</u>	<u>6,737</u>	<u>32</u>	<u>2,910</u>
Total Taxes Uncollected	<u>\$ -</u>	<u>\$ 361,035</u>	<u>\$ 40,439</u>	<u>\$ 182</u>	<u>\$ 15,873</u>

<u>County</u>	
<u>Wright</u>	<u>Total</u>
\$11,163,397	\$555,349,833
26,556,291	937,206,209
	18.0000
	3.6000
	<u>21.6000</u>
\$ 202,067	\$ 9,956,571
95,665	3,373,976
<u>297,732</u>	<u>13,330,547</u>
3,312	60,260
662	12,371
<u>3,974</u>	<u>72,631</u>
198,755	9,896,311
95,003	3,361,605
<u>293,758</u>	<u>13,257,916</u>
593	31,465
16	6,263
<u>609</u>	<u>37,728</u>
199,348	9,927,776
95,019	3,367,868
<u></u>	<u></u>
<u>\$ 294,367</u>	<u>\$ 13,295,644</u>
\$ 3,312	\$ 60,260
2,673	122,500
895	171,857
<u>6,880</u>	<u>354,617</u>
662	12,371
585	24,476
195	34,387
<u>1,442</u>	<u>71,234</u>
<u>\$ 8,322</u>	<u>\$ 425,851</u>

Hungerford, Aldrin, Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

September 2, 2005

The Board of Education
Kenowa Hills Public Schools

The following comments pertain to our audit of the financial records of Kenowa Hills Public Schools as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kenowa Hills Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kenowa Hills Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kenowa Hills Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kenowa Hills Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kenowa Hills Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kenowa Hills Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kenowa Hills Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kenowa Hills Public Schools for the year ended June 30, 2005. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$28,795 and \$97,006 to record and write off current and prior years' delinquent personal property taxes receivable at June 30, 2005.
2. \$536,536 and \$460,939 to record and reverse current and prior year end deferred revenue for unspent State supported programs.
3. \$62,236 to record the special education transportation reimbursement receivable at June 30, 2005.
4. \$90,681 to record additional special education transportation payable at June 30, 2005.

Food Service Fund

1. \$50,459 to record USDA bonus and entitlement commodities received during the year.

Scholarship Funds

1. \$28,579 to record certificates of deposit owned by the Scholarship Fund.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kenowa Hills Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kenowa Hills Public Schools to the Assistant Superintendent for Business and District accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District decreased by \$732,518 to \$3,017,882 at June 30, 2005. This balance represents approximately 9.8 percent of the District's 2005-06 expenditure budget. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kenowa Hills Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kenowa Hills Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kenowa Hills Public Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kenowa Hills Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants